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FRANKLIN TEMPLETON
INVESTMENTS

August 21, 2006

VIA EMAIL TRANSMISSION

Nancy M. Morris, Secretary
U.S. Securities & Exchange Commission
100 F Street, N.E.
Washington, D.C. 20549

Re: Request for Additional Comment—Investment Company Governance; File No. S7-03-04

Dear Ms. Morris:

Franklin Templeton Investments[1] appreciates the opportunity to respond to the Commission's request for additional comment on the mutual fund governance rule amendments that would require virtually all fund boards to have an independent chair. We support the comments made in the letter submitted by the Investment Company Institute, particularly regarding the independent chair requirement.[2]

We are writing separately, however, to provide additional support for the ICI's recommendation that the Commission not pursue the independent chair requirement. We do not support a "one-size-fits-all" approach that would mandate that every fund board select an independent chair. Based on our experience, we believe that there is no single approach that works best for every fund board. Under the current, more flexible, regulatory framework, the various Franklin Templeton fund boards have been able to assess their needs, and take appropriate action. This has resulted in their taking different approaches, which, in turn, have served their funds and shareholders very well. Accordingly, we urge the Commission to continue to permit fund boards to select the individual they believe is best qualified to serve as chair, whether or not that person is affiliated with the fund's management company.

By way of background, Franklin Templeton Investments is an asset management company with over $490 billion in assets under management as of June 30, 2006, of which approximately $271 billion is in open-end and closed-end funds registered under the Investment Company Act of 1940. We originated our mutual fund business with the Franklin family of funds. Over the years we expanded our business, in part, by merging with and acquiring companies engaged in the investment management business, including L.F. Rothschild Fund Management Company in 1988, which added four funds; Templeton, Galbraith & Hansberger Ltd. in 1992, which added the

[1] Franklin Resources, Inc. [NYSE:BEN] is a global investment management organization operating as Franklin Templeton Investments.
[2] *See* Letter to Nancy M. Morris, Secretary, Securities and Exchange Commission from Elizabeth R. Krentzman, General Counsel, Investment Company Institute, dated August 21, 2006.

Templeton family of funds; and Heine Securities Corporation in 1996, which added the Mutual Series family of funds.

Today, there are over 120 funds in our complex that are overseen by many different boards, which can loosely be clustered in the following five board groups: Franklin-California, Franklin-New Jersey, Franklin-New York (a sub-set of the Franklin-California board group), Mutual Series and Templeton. Although the origin and history of each of these board groups differ from one another, they all share the common goal of serving the interests of the funds and their shareholders. In order to achieve this goal, the boards have taken different approaches on certain matters, including the naming of a chair, as set forth below.

Within our complex, one board group (the Mutual Series boards) has selected an independent director as chair, whereas the other board groups (Franklin-California, Franklin-New Jersey, Franklin-New York, and Templeton) have selected an interested director as chair. Notwithstanding these differences, the independent directors of each board actively participate in setting the agenda for the meetings, principally through their outside independent counsels. (Each board has separate counsel to the independent directors; two firms serve in this capacity for the different board groups. In the case of the Franklin-New York boards, counsel to the independent directors also serves as fund counsel.) The independent directors of each board meet separately with their counsel on a regular basis.

The board and committee meeting agendas for each meeting are typically drafted by management, reflecting largely matters dictated by each fund's compliance calendar and a few special matters (*e.g.*, new funds, new share classes, and revisions to compliance policies and procedures).[3] The agendas are then circulated to outside fund counsel and counsel to the independent directors (in addition to the one independent chair) in advance of the meeting to ensure that all directors' issues are placed on the agendas. The directors generally coordinate their comments through their outside independent counsel. The frequency of board meetings depends on the preferences of the individual boards, and range from five to nine times per year.

From time to time, the independent directors have requested presentations from management on various topics of interest, and have also organized board calendars that include a number of joint board meetings in order to address topics of mutual interest. Different boards, either directly at meetings or through their independent counsel, have requested the development of certain reports and given active feedback with respect to the format and content of various other board reports (*e.g.*, portfolio manager reporting).

The process for review and approval of investment management contracts is very similar for each Board group, regardless of whether they have an independent or interested chair. Each of the fund boards has hired an outside consultant to assist them in their evaluation of the investment management contracts. The independent directors of each board also meet separately with their counsel during the contract approval process.

As illustrated above, the different boards within our fund complex have taken somewhat different approaches on certain matters, including on the question of whether an independent director should serve as chairman. We believe each approach has proven effective in ensuring that the directors are able to discharge their responsibilities to the funds that they serve. Consequently,

[3] In the case of the Mutual Series boards, committee meeting agendas are initially drafted by counsel to the independent directors and circulated to the independent chair and the committee chairs.

we do not believe it would be prudent for the Commission to deviate from the existing regulatory framework, which gives the boards the discretion to determine who sits as chairman.

We appreciate the opportunity to express our views on this matter. If you have any questions regarding our comments, or would like additional information, please do not hesitate to contact me at (650) 312-4161.

Sincerely,

Craig S. Tyle
Executive Vice President and General Counsel

cc: Andrew J. Donohue, Director, Division of Investment Management